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AGAIN THE INFLATION DANGER

By HOWARD BUFFETT

BACK IN 1945, Harry Dexter White, the Communist spy, was free-wheeling the Bretton Woods handout billions through a mesmerized House Banking Committee and a complacent Congress. It was then that, as a member of that committee, I got my first briefing on the managed money formula for perpetual prosperity.

Visiting one of the nation's leading bankers, I voiced fears that the Bretton Woods scheme, plus other post-war foreign handouts, would fuel inflation in America. "Certainly the cost of living is going to go up," he responded, "and the buying power of the dollar is going to decline. But if we manage it carefully, the price level will only go up from 3 to 5 percent a year. In that way, we can enjoy a steadily rising business level and an unlimited period of prosperity."

It was a roseate picture he painted, but an apparent flaw prompted me to interrupt, "Yes, this all sounds very attractive, but let me ask a question. How will this gentle inflation affect the patriotic citizens who are putting their savings into war bonds, annuities, and other dollar obligations, and those who live on relatively fixed incomes?"

Shrugging his shoulders he answered, "Oh, it's going to be a little rough on them. But they're just a part of the over-all picture. Our main job now is to keep the boom rolling, and a rising price level will do that. Prices must not go up so fast as to upset public confidence in the dollar. But by keeping money and credit expanding we will be able to keep business moving up indefinitely."

In 1945 this doctrine of sly, steady and relentless inflation shocked me. Yet since then it has been accepted and endorsed so widely that — it is clear — government and much of business is wedded to the idea.

Consequently, today "Middle of the Road" economics is based on "3 to 5 percent inflation annually." Conversely, those who seek an honest dollar — a dollar that could have as much purchasing power 10 years from now as today — are labelled "too conservative" or "reactionary."

Yet a week before elections, on October 26, President Eisenhower declared, "A year ago inflation was halted." Now "halted" is a word of several meanings. If the President's intention was to report that inflation had ended, that would indicate that the 3-to-5-per-cent-a-year inflation was over. It would indicate that a sound currency was in prospect. On the other hand, perhaps his meaning carried the implication that a resumption of inflation might occur — a more likely interpretation in view of present economic thinking.

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In either event, during the past year many indices reflected the most stable consumer price level since 1945. That stability gives us a chance to review the road behind and assess the prospects ahead. Which view is correct? To get our bearings, a chart prepared by Professor Donald Kemmerer of the University of Illinois is helpful. First, this graph portrays the depreciation of the purchasing power of the dollar since 1939. A second line is charted to show what would have happened if the dollar had lost 5 per cent of its remaining value each year.

The result is startling. It shows that the actual dollar depreciation annually since 1939 has been just under the 5 per cent amount my banker-mentor declared was desirable. It seems fair to conclude that so far this scheme has worked more or less "according to plan."

WE HAVE HEARD a lot about the so-called social gains of this inflation policy. It would seem only appropriate that the whole story be told.

Various estimates have been made of the financial loss suffered by dollar obligation investors since 1939. Carefully assembled statistics were presented by E. C. Harwood of the American Institute for Economic Research before a Senate Committee last spring.

According to these estimates, 158 billions of buying power have been confiscated from those buying dollar obligations since 1939. Of this amount, the loss to those owning U. S. Savings Bonds has been over 21 billions out of 57 billions outstanding. The amounts are, indeed, large. But their significance is clear. The savings of the individual who sought to provide for his future by investing in dollar obligations have been cut in half.

Out of curiosity, I carried out to 1969 the 5 percent a year depreciation line on Professor Kemmerer's chart. This showed what would happen to the dollar if we had 15 more years of such managed inflation. The result indicated that the 1969 dollar would buy less than what 24 cents would have bought in 1939. More important to you and me in 1954, it indicated that those who save dollars *now* would lose more than 50 percent of their buying power by 1969.

Of course if inflation is ended, then the foregoing calculations are no more than a mathematical exercise. Actually, what is the outlook?

Probably the best way to answer that question is to review the factors making for inflation in 1939, and then to decide whether the same factors are present in 1954. Finally, after determining whether these pressures are stronger or weaker in 1954, we should have a preview of the prospects ahead.

TO CONSIDER ALL the evidence is not feasible. Therefore, the effort here is limited to selected fundamentals.

(1) NATIONAL DEBT. The rise in the Federal debt has been publicized so much that its importance is a victim of the familiarity that breeds contempt. But, at $275 billions, the debt is almost seven times as large as the $40 billion total in 1939. Addition-

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ally, the rise in the Federal debt has naturally been accompanied by a rise in interest costs. In 1939, that expense was under one billion a year. Now it is about six billions a year, or 500 percent greater.

When private debt is added to public debt (federal plus governmental subdivisions), we reached the fantastic net debt total of $585 billions at the end of 1953. The comparable figure in 1939 was $183 billions. Inflation advocates belittle this mountain of debt, referring to the gain in gross national income. But they pass over lightly the fact that this income rise has been fueled by a debt increase averaging about $100 million per day, every year (based on a five-day work week), since 1939. The 1953 debt increase was 29½ billions.

(2) NUMBER OF PEOPLE RECEIVING FEDERAL CHECKS EVERY MONTH. As of June 30, 1939, about 4,849,000 persons were receiving a Federal check every month. In 1953, fourteen years later, 20,120,000 people were receiving a regular monthly check from the government. In short, the political potency of this factor has increased 400 percent since 1939.

(3) MILITARY SPENDING. In 1939 the item later described in the Atlantic Charter as the "crushing burden of armaments" cost the American people one billion, 258 millions of dollars. In 1953, expenditures of the armed forces were over 45 billions of dollars, an increase of 3600 percent since 1939.

(4) INDUSTRIES DEPENDENT ON GOVERNMENT SPENDING AND CREDIT. In 1939 the only industry dependent on government spending was the aircraft industry. Today the number of such industries has increased ten-fold or more. The mining industry depends on government stockpiling; the building and building supply industries are supported by artificial government credit; the auto, aircraft and shipbuilding industries require defense contracts to keep their labor force busy.

(5) PRESSURES BY FOREIGN GOVERNMENTS RELYING ON AMERICAN HANDOUTS TO BOLSTER THEIR ECONOMIES. In 1939 no foreign land received any significant financial support from the U.S. Treasury. But in 1954, according to a House Report dated June 25, the U.S. Treasury funneled American tax dollars to 54 foreign lands. According to the Commerce Department, this aid totaled over five billion dollars in fiscal 1954, and we are now in the 10th post-war year of such giveaways.

It would be difficult indeed to attempt to measure the inflationary pressures created by this bipartisan foreign policy of subsidizing the budgets of foreign countries.

In the 1948 debate on the Marshall Plan, I entitled my speech on the floor of the House, "Give Us the Dough or Communism Comes in the Morning." The language used in the title could certainly be improved. But its accuracy, as prophecy, leaves little to be desired. From every non-Russian land on earth comes regularly or intermittently the plea or demand for financial assistance. For instance, Prime Minister Yoshida of Japan recently proposed a multi-billion dollar Marshall Plan for Asia.

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BESIDES THE FOREGOING comparisons with 1939, other important elements deserve consideration. But rather than attempt to cover them all, it seems better to spell out briefly a political factor on which there can be no statistics. It is the decline of individual integrity in America — a decline for which, I hasten to add, little or no blame is attached to the average citizen. The last time the American electorate had a chance to vote for a conservative platform was in 1932. At that time, in the midst of a great depression, voters elected a candidate running on a staunchly conservative program. That the promises of that program were then discarded was not the people's fault.

But now levies fall on the American taxpayers year after year for spending projects all over the globe. For 15 years our people have seen their government toss billions away. How will these taxpayers respond when events finally force that same government to demand that U.S. citizens endure austerity and stern economy? How will our people respond after having seen the purchasing value of their earnings and savings relentlessly confiscated year after year, both by cruel taxation and cunning inflation? The prospect is not reassuring.

Is inflation halted?

For the moment, yes. But not for long, unless there is somehow instilled in our ruling politicians the courage, integrity and ability to renounce and terminate the monetary policies that fuel inflation. The task is monumental. It can not succeed, unless business, labor and farm leaders all get into the fight to force our federal officials to end inflation.

The great danger is that some day the patriotic majority, whose faith in their government has prevented them from suspecting a pattern of deliberate inflation, may discover the fraud of which they are the chief victims. When that day comes, and come it will unless a move to relative stability soon takes place, the results will not be pleasant. One of two consequences is probable: either the long-suffering majority will join the flight from the dollar now proceeding so smugly among the more sophisticated, or they will demand and get economic regimentation for all — a move that will turn our slow advance towards socialism into a forced march at double time. Either result would be disastrous.

What can be done to prevent such alternatives? It is neither proposed nor implied here that a deflation of the present price level is practical or desirable. The inflation that has occurred cannot be undone. But inflation is an economic narcotic, and like all narcotics, the longer corrective action is put off, the more difficult cure becomes.

The only way to conquer the menace of inflation is, now as always, by the restoration of honest, redeemable money. Until that takes place in the U.S., all our defenses — military, economic and moral — are built on sand.

Mr. Buffett served four terms in Congress, as Republican Representative for the 2nd Congressional District of Nebraska. He retired in 1952 and returned to private business. In the last Presidential nominating campaign, Mr. Buffett was active on the Taft committee.

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HUMAN EVENTS

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Vol. XI, No. 49 — Wednesday, December 8, 1954 — Washington, D. C.

Crisis in GOP: President Eisenhower, in the past 24 hours, faced a growing split in his party, marked by (1) the virtual defiance of his Senate Majority Leader, Mr. Knowland, and (2) the open revolt of Senator McCarthy.

The "defi" thrown down to the President by Knowland recently on foreign policy remains unretracted — which has caused great astonishment in this parliamentary-minded city. For, many observers have long assumed that the Majority Leader must act as subservient agent of the President (of his own party) on Capitol Hill. Knowland openly repudiated this practice which had taken deep root under Roosevelt and Truman.

Knowland now looms as the Republican who will wear the mantle of the late Senator Taft. He has drawn to his support the majority of GOP Senators who followed the dead Ohioan. On three key issues, the California Senator has taken over the leadership of the Taft crowd by (1) upholding the Bricker Amendment; (2) attacking White House appeasement of Soviet Russia; and (3) voting against the censure (or "condemnation") of McCarthy. Knowland left Washington for a vacation without modifying his independent position.

The White House, within the past week, defied peacemakers in the GOP who sought to overcome the open split in the party, vividly signalized by the vote on censure. Ike praised Watkins for his work on the censure committee, thereby pouring salt into the party wound caused by the censure vote. Last week, the Gallup poll recorded a drop in Ike's popularity.

The Democratic Party added fuel to the fire by announcing that it was prepared to criticize the President during the rest of his term. This was a natural *sequitur* to the President's call, in October, for defeat of the Democrats by election of a GOP Congress.

Finally, in the past twenty-four hours, McCarthy directed his fire at the President personally. He apologized to the voters for having urged them, in 1952, to vote for Eisenhower for President. He said that the Eisenhower Administration had failed to take real action against Communists at home and abroad since inauguration.

The White House reply to McCarthy was weak, in the opinion of many here. Actually, it merely followed the practice of the Truman Administration in such a situation. For the White House spokesman confined himself to citing statistics of cases of prosecution of avowed Communist Party leaders. The McCarthy forces have criticized this policy of both Administrations, claiming that the really dangerous Communists are the "cryptos" who hide in the Executive arm of the Government, and that both Truman and Eisenhower failed to get at these subversives.

Politicians attach major importance to the fact that McCarthy, in effect, addressed his remarks yesterday to his large following whom he had importuned in 1952 to vote for Ike. These voters, it is believed, really cinched the GOP victory in that year in the big city, big electoral-vote states. They are now apparently on the warpath, as may be judged by the large number of signatures gathered in these areas in protest against the censure of McCarthy. (See our story on this below.)

But these voters are also apparently in revolt against the solid Democratic Party vote in the Senate for censure. This picture has led to speculation that this segment of the voters could — if McCarthy so

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desired — defeat the Democrats in these key states in 1956, should a McCarthyite "third party" arise. Hence, members of the Taft wing of the GOP wonder if some of their present leaders will soon make a gesture to these people of the big-city, big electoral-vote states, who like the censure policy of the Democrats no more than they do that of the White House.

Not Merely Gossip: Dulles is reportedly bucking the White House in its "co-existence" policy very privately — but will not resign. He has been gathering a "team": Herbert Hoover, Jr., Undersecretary; Assistant Secretary (for the Far East) Walter Robertson; and, just announced, Loy Henderson who is to be Assistant Secretary for Administration. If Dulles were to resign, Henry Cabot Lodge, Jr., U.S. representative to the UN, would — it is expected — succeed him. Lodge would be unable to work with this team. Hence, Dulles sticks to his job. The Henderson appointment is considered very significant. "H.H., Jr.", a "chip off the old block," wants a reliable State Department career man to guide reorganization of the Department, a task necessary since it is filled with Acheson "holdovers." Henderson fills these specifications. He got to know Mr. Hoover when the two men worked together on the Iranian oil problem.

● Figures on the number of signatures to the "Ten Million Americans" petition against censure are amazing experts who know something about the difficult job of gathering such petitions. None of these experts really expected that, even granted there was a big wave of protest, it would be mechanically possible to process more than a million names — especially in view of the hasty creation of the organization. They regarded the goal of "ten million" as impossible and criticized the organization for short-sighted "public relations" in openly assuming such a number could be obtained. Hence, when it now becomes known that over four million persons actually signed up, these experts are astonished. Such a figure indicates that a much larger following for the Senator exists than previously realized.

Judge Harlan: The *Chicago Tribune* reports that only a few days ago the Constitution survived "because the Supreme Court tied four to four on the issue of whether the United Nations Charter is binding as domestic law upon the States and all American citizens."

This is the first case to reach the nation's highest tribunal where (says the *Tribune*) the issue has been directly raised whether a treaty can supersede the Constitution. Senator Bricker, with the overwhelming support of the American Bar Association, has been insistently urging that the Constitution be specifically amended to prevent this from happening, that if it isn't so amended the door is open for destroying the Constitution and the nation's sovereignty in a world government by a mere treaty.

In the steel case opinion of 1952, three Justices of the Supreme Court (including Chief Justice Vinson) held that, although President Truman lacked the power under the Constitution to seize the steel mills, he had that power under the UN Charter and was entitled to use it. The vote of the court was 5 to 3 with one Justice abstaining. Apparently the internationalists have picked up one vote on the high court since 1952 on this critical issue. Apparently also, say worried observers, the international crowd needs only one more Justice on the high court to bring about a transfer of our sovereignty to a world government through treaty law.

All this has sharply focused attention on Federal Judge John Marshall Harlan, selected by the Administration to fill the seat on the Supreme Court made vacant by the death of Justice Jackson. There is general agreement among observers here that the chief objective of the Administration in foreign policy is to create a world government which will necessarily destroy our national independence. For more than ten years, it is pointed out, Secretary of State Dulles has favored such a policy. President Eisenhower himself is known to favor it — has in fact, in his book *Crusade in Europe* (page 459), admitted that he wanted such a government. In addition, Eisenhower — according to the *Tribune*, December 5 — sent greetings to an Atlantic Union meeting (working for a common government between the U.S., England,

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France, Belgium, Holland, Luxemburg and Canada) asserting his interest was "*official* as well as personal" and that "success was certainly worth maximum individual effort."

The general fear is that the Administration may have carefully picked Judge Harlan to tip the scales on the highest court in favor of those who are willing to regard treaty law as superior to the Constitution. With a revision of the UN Charter scheduled for 1955 and Secretary Dulles advocating an end to the veto power in the Security Council which protects national sovereignty, observers say that a world government may be just around the corner if the Supreme Court will only make treaties the paramount law of the land.

It is likely, therefore, that Judge Harlan will face intensive questioning when his nomination is considered by the Senate. As a Rhodes Scholar (so many Rhodes Scholars are in the forefront of the battle to lure the U.S. into a world government), and a former leading figure in a large New York international law firm in which internationalist Governor Dewey is about to become senior partner, Judge Harlan — say observers here — has much to explain. Of significance is the fact that his appointment, which was expected to slip through quietly while the Senate censure hearings were on, was firmly shelved until the new Senate meets in January.

Last Call: This week, we invite you for the last time this season to send subscriptions to HUMAN EVENTS as Christmas gifts to those of your friends who are interested in national affairs. For such people, no gift could inspire greater approval. It will remind them 52 times a year of your thoughtfulness.

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Status of Forces Treaty: Last session Congress passed the Status of Forces Treaty, by which American soldiers serving in foreign lands could be turned over to foreign courts for the commission of civil offenses. The Treaty was opposed vigorously by patriotic groups which denounced it as a surrender of an important part of the nation's military sovereignty. From the time of Chief Justice Marshall, the doctrine has been established that the United States, like all other nations, had complete military jurisdiction over its military forces anywhere in the world.

President Eisenhower urged passage of the Treaty on the rather optimistic ground that "our friends abroad" would cooperate in turning over those charged with offences against foreign laws "to our own military courts for trial." At the very time the President was expressing this optimism the Truman Administration, by a secret executive agreement, was permitting foreign courts to try American soldiers; and the complaints of relatives of those thus surrendered to foreign courts were coming to Congress. In the face of this situation, observers wondered how the President could express the optimism he did.

Since passage of the Treaty which legally validated the Truman secret executive agreement, the situation has grown steadily worse — according to the *National Republic.* This magazine reports that in Japan alone more than 1,200 American soldiers are serving terms in Japanese prisons, tried and convicted by judicial procedures unlike those guaranteed to American citizens by the Constitution. It says that "efforts by Congressmen to obtain particulars have been brushed off by the statement that the information is 'top secret,' but no one seems to know by whose orders the facts are withheld."

Families of servicemen are complaining particularly of harsh and unjust treatment of our soldiers by the courts of Iceland, France and Japan. Observers feel that the accumulating resentment to the Status of Forces Treaty which is resulting from its operation may easily produce an explosion on the floors of the incoming Congress.

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Book Front: *The Techniques of Communism*, by Professor Louis Budenz commands the attention of everyone who seeks to understand how the monstrous conspiracy works, not only throughout the world, but especially in these United States. We think the publisher (Henry Regnery Company, 20 W. Jackson Blvd., Chicago, Ill. Price — $5.00) did well to accept Budenz' sober (and accurate) title, instead of substituting — as is too often the case — something more sensational like "Red Plot." For, acquaintance with the curiosities and reactions of HUMAN EVENTS readers, convinces us that more and more people do recognize that there are specific techniques by which innocent Americans are swayed by Soviet propaganda. In this wise, some Senators (in the words of McCarthy) became the "unwitting handmaidens" of that conspiracy.

Budenz shows vividly how the "Commie line" is propagated through the party apparatus and fellow-travellers. It arises from the theoretical organs, then goes into the popular Communist press — like the *Daily Worker*, next appears in the "liberal" publications, finally showing up in the metropolitan press — with miraculous identity even in phraseology. This is how the extraordinary crusade against "McCarthyism" arose. And this is the method by which the phrase "Senator for Formosa" first appeared in the West Coast Communist paper, *The People's World*, to smear Senator Knowland. Since the California Senator is now obviously the present target for a mounting press campaign, the *Techniques of Communism* serve as a useful handbook for the intelligent American who seeks to follow such a smear crusade from the lowly Communist daily to the lofty "liberal" metropolitan paper. In a final illuminating chapter, "Knowledge and Facts as Weapons," the author tells how American citizens can counterattack.

● *Praised and Damned: The Story of Fulton Lewis, Jr.*, by Booten Herndon (published by Duell, Sloan and Pierce, New York; and Little, Brown and Company, Boston; $2.00) is an exciting story of an exciting career. Lewis, by now, is an American institution, the conservative muck-raker who nightly exposes the maneuvers of the Communists and "liberals" on his Mutual broadcast. Because radio broadcasts have an ephemeral quality and, without extensive editing, cannot practicably be kept for posterity, this book performs a service in giving the high points of Lewis' "air wave" journalism. It also sets down significant data on the major exploits of a publicist — for that is what he is — whose influence on the American people is undoubtedly enormous.

We liked particularly the account of how this courageous commentator — whose listening public is probably largely Republican — first discovered the alliance of organized crime and the Republican administration of Lewis' own state; and how, without hesitation, he fought the battle to expose it — despite actual personal persecution — to a victorious end.

● *Popular Diplomacy And War* (with a preface by Dr. Harry Elmer Barnes), by Sisley Huddleston (Richard R. Smith, Publisher, Topside, West Rindge, N. H.; $3.50) is a brilliant attack on "Democratic Diplomacy" which since World War I has wrought such universal damage. Huddleston, one of the most famous of British foreign correspondents, uses the term "The Clamor Boys," describing them as the "pin-up" diplomats — like Wilson and Roosevelt — who brought on wars and destroyed the chances of peace treaties by gaudy international demagoguery. The book is a plea for a return to the discreet and relatively humane activities of the type of professional diplomat who set up the Peace of Paris following the Napoleonic wars and in the numerous conferences of the 19th Century, ensured the maintenance of the "century of the peace." In the course of his argument, Huddleston makes many remarks about the disaster of "Unconditional Surrender," the cant of "disarmament," the fraud of the UN ("all major meetings [of the UN] have merely provided a forum for the fomenting of a war psychology"), etc. This book is worth-while reading for anyone, but particularly for revisionists.

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